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Consolidation of financial resources for postindustrial cities revitalization

Abstract. Revitalization of industrial zones is one of the major challenges facing modern cities. A key problem of the implementation of revitalization is its financial support. This problem is not only confined to the direct funding from public funds or community funds, but also determines a need for the creation of mechanisms of financing and usage of various incentive instruments to encourage an inflow of funds from private investors or other stakeholders.

The revitalization funding sources can be classified according to their origin into public, private and mixed. The process of revitalization cannot be carried out without public investment in infrastructure. Nevertheless, an enabling environment to stimulate the investment process is more important than public investment. Sources of credit take on particular significance, especially attraction of public loans, both internal and external. Furthermore, community involvement in the process of solving problems of the city will form a responsible civil society, on the one hand, and on the other, will create a community fund to finance the revitalization of postindustrial areas through donations.

Keywords: Revitalization; Financial Sources; Funding; Public and Private Investments; Regional Development

JEL Classification: G18; O18; R51

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Формування фінансових джерел ревіталізації постіндустріальних міст

Анотація. Ревіталізація промислових зон є одним з основних завдань, що стоять перед сучасними містами. Ключовою проблемою є пошук фінансових ресурсів для цього процесу. В статті запропоновано класифікувати джерела фінансування ревіталізації на приватні, державні та змішані, що, в свою чергу, поділяються на бюджетні, кредитні, грантові та інвестиційні. Вказано на необхідність використання широкого спектру механізмів фінансування та оцінено переваги й недоліки залучення коштів з різних джерел.

Ключові слова: ревіталізація; джерела фінансування; державні та приватні інвестиції; регіональний розвиток.

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Формирование финансовых ресурсов ревитализации постиндустриальных городов

Аннотация. Ревитализация промышленных зон является одной из основных задач, стоящих перед современными городами. Ключевой проблемой является поиск финансовых ресурсов для этого процесса. В статье предложено классифицировать источники финансирования ревитализации на частные, государственные и смешанные, которые, в свою очередь, делятся на бюджетные, кредитные, грантовые и инвестиционные. Указано на необходимость использования широкого спектра механизмов финансирования, а также оценены преимущества и недостатки привлечения средств из различных источников.

Ключевые слова: ревитализация; источники финансирования; государственные и частные инвестиции; региональное развитие.

1. Introduction

The process of economic restructuring, which begins with the disintegration of the Soviet Union, was manifested in different directions and many of them had negative consequences which Ukraine has not overcome yet. Among them, there are problems of those cities, which in Soviet times were industrialized, often in an artificial way, as was the case with Lviv. Spatial development of towns in the Soviet period was based on the ideology of the industrial age, including non-functional zoning, disregard of the environmental factors, which resulted in the urban environment of low quality with irrational usage of land and energy resources, growing infrastructure and transport problems.

Thus, the problem concerning the revival (renewal) of industrial areas of cities, both large and small, becomes important. In this context, the concept of revitalization, which is traditionally used to indicate the revival of the soil, buildings and structures, has been increasingly used at present. Revitalization of industrial zones is one of the major challenges facing modern cities. Today's projects of revitalization of urban areas, as an integral part of urban development plans and conversion of industrial facilities into active urban spaces, are the current trends.

A key challenge of the implementation of revitalization is its financial support. This problem is not only confined to the direct funding from public funds or community funds, but also

determines a need for the creation of mechanisms of financing and usage of various incentive instruments to encourage the inflow of funds from the private investors or other stakeholders. It becomes a particularly actual problem in the context of limited budgetary resources and the implementation of budget decentralization.

2. Brief Literature Review

A number of Ukrainian and foreign scientists, among them A. Amosha (2014), S. Schulz (2012), B. Domanski (2010) [1-3], dedicated their works to the examination of issues related to the funding problems of economic development of cities. The results of researches of individual sources of economic development funding are given in the analytical summary of scientific institutions [4-5], with further information provided in the resolutions of the Cabinet of Ministers of Ukraine [6], etc. However, the characteristics and the problems associated with the formation of resources for the revitalization of cities are covered separately and unsystematically.

3. Purpose

The article aims to outline funding sources and possibilities for their combining which will enable us to identify the priority ways of financial support for postindustrial cities.

4. Results

Based on the presented international science and practice approaches the upgrade of the urban environment can be done in the following areas: reconstruction, repair, modernization, renovation, rehabilitation, revitalization. The urgency of the latest trend is growing because today the concept of revitalization has gone beyond the meaning of «technical or technological updates»; the term is comprehensive and helps to solve a number of socio-economic and environmental problems of the city.

Andreas Billert (2005) [7] treats revitalization as a «complex process of restoring an urbanized area, which space, function and body have undergone the process of structural degradation, causing a state of crisis, making impossible the normal economic and social development of both the territory and the balanced development of the whole town».

Revitalization involves upgrading of abandoned and unpromising industrial areas of cities in terms of production and functional recovery of those areas of cities that are part of it, but for some reason began to lag behind in development, even degrade. Abandoned industrial zones of large urban centers and many peripheral towns in Ukraine are in need of revitalization. It means combating further degradation of urban space and the deepening crisis in these areas by encouraging their development and qualitative changes by improving the environment, saving cultural and historical heritage and providing the sustainable development.

Here are examples of the implementation of revitalization in Ukraine. In 2014, Lviv City Institute spent over one million UAH on the revitalization of Pidzamcha, which is one of the oldest areas of the city. In the future the revitalization should be implemented in large-scale projects. For example, the unresolved problems which remain in Lviv region are to be solved in order to upgrade the territory of districts, where sulfur, oil and salt were massively mined in the Soviet times, and today those areas are zones of ecological disaster.

The main problem is to mobilize funds to upgrade depressed areas through the diversification of funding sources. It should be noted that the revitalization is not limited to finding financial resources. The process must be preceded by the evaluation of a territorial unit, its financial capacity, the analysis of investment demand and factors affecting it, including all types of risk. Only then we can begin to discuss the problems of its financial support.

According to the dominating in the developed countries neo-institutional theory [8], the role of government in the economy should be limited primarily at introducing a favorable investment climate, clear conditions for business, security of investments but not to direct funding. Often, public investment in strategic projects aimed to stimulate innovative development or prevention of negative economic conse-

quences proved to be ineffective. Therefore, the promotion of the revival of areas by the state should be considered not from the standpoint of direct funding, but from the position of forming favorable conditions, providing secure environment which will attract investors.

An analysis of international practices related to the implementation of the revitalization shows that the state is one of the participants of this process. Until recently, the favored source of revitalization in Ukraine was public funding, although pure application of one kind of financing mechanism is not appropriate, and in practice the sources have to be applied comprehensively. It is advisable to consider a possibility of usage of different financial sources and mechanisms for revitalization of the areas and highlight the difficulties encountered in the process.

State financial resources allocated for revitalization purposes could be divided into budget and credit sources (see Figure). Budget sources include the use of the budgets of all levels, primarily through the direct funding programs. Secondly, the state should use a variety of tax tools. The third way is the possibility of disposal of state property during the revitalization. Taxes and fees may also provide funding for local revitalization projects by increasing the city budget revenues. International practice provides a fairly broad base for taxes and fees that may be established and collected by local authorities within their own jurisdiction. Ukrainian cities have an opportunity to introduce the use of this mechanism as part of fiscal decentralization that began in 2015.

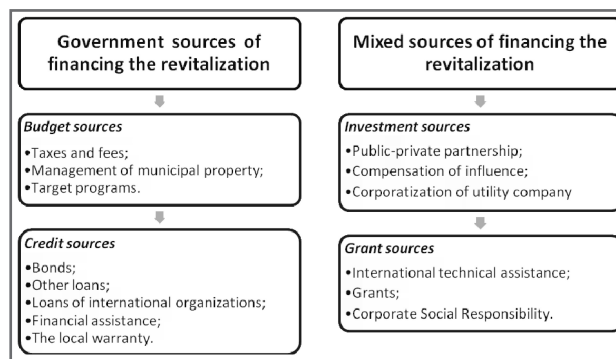


Fig.: Classification of funding sources for the revitalization of cities
Source: Developed by the authors

On the other hand, the introduction of tax incentives for investors interested in revitalization projects can have a significant positive impact and help attract funds in such a project. Stimulating tax instruments used in Poland is the tax benefits of real estate (but this privilege is not very effective because of the low tax rate). A more effective way is the lowering of the first payment for the use of property received for life tenure – from 25% to 15% [3]. The issue concerning the potential investor is the possibility of acquisition of property rights that exist or are created in the process of revitalization. There are alternatives such as privatization and rent. In our opinion, selling of municipal property is an ambiguous tool as it provides an irreversible transition of ownership of utility assets. Sales allow us to quickly attract considerable funds across the city, but this resource is exhaustive. In the absence of transparent competitive bidding and corruption such property can pass to inefficient owner.

Several authors insist that communally owned property be prepared for revitalization. Therefore, it seems logical to create a local real estate office, which will have all the information and documentary related to the ownership of specific objects. The priority options should be rental or property usage, because these are the renewable financial resources for territorial communities, and left levers for local authorities to influence over the revitalization process. As for international and Ukrainian practice, the most common form of usage of this source is a long- and medium-term lease of land. If the

decision to sell the property is taken, it is advisable to create a separate account for such funds, to control the usage of the source.

Poland's experience demonstrates the possibility of redemption of industrial property by the state which has lost its economic attractiveness for its owners and needs revitalization. In Poland, public loans secured by tax revenues and issuing of the municipal bonds were used to attract such significant funds.

A local targeted program is the method of planning and management of revitalization that in some form exists in most cities. However, a weak resource base does not allow self-funding of these programs and they are usually guided by budget transfers from higher levels. The state target programs involve central government funds to address the problems in a particular area that is depressed.

Regional agreements on socio-economic development have recently received the legislative background after the enactment of territorial cooperation [9].

The successful experience of the voluntary association of local governments is the formation of the Association of Energy Efficient Cities of Ukraine in 2007, which includes 26 members. Its task is to unite efforts and resources (financial, intellectual and organizational) of local governments to meet the challenges of creating an effective energy management in the cities of Ukraine.

Often the factor influencing an investor's decision may be its interest in operating infrastructure, created by public funds (public finance). It may be the remediation of territory and dismantling of unnecessary, emergency or dilapidated buildings. Not always the local government has sufficient funds for such activities, so we have to consider the budgets of higher levels. The solution may be in the form of cooperation of areas that use some infrastructural facilities and their voluntary associations, including the formation and usage of budgetary resources.

Compensation of influence is a method that allows synchronizing the pace of development of municipal infrastructure to the dynamics of residential and commercial buildings, as well as offsetting the negative impact of external factors, e.g. industrial pollution in the area. Using this method involves obligations of developers or entrepreneurs to compensate the negative impact of new construction on the level of urban infrastructure or the environment. Such compensation may be given either in the form of contributions to the budget of the city, as it is required by Ukrainian legislation, or in a non-cash form, in the way accepted in most developed countries.

This type of financing of revitalization projects is similar to social responsibility. However, the use of pollution compensation is limited, because it implies existence in the city the financially successful enterprise of considerable size. Usually in urban areas that need revitalization, there is no such an enterprise. Thus, local authorities have to deal with unprofitable or bankrupt enterprises.

Public-private partnership is a sustainable cooperation between the authorities, including the municipal level, and the private sector to generate resources for the implementation of infrastructure projects. Within public-private partnership the distribution of costs, risks and future benefits (profits) takes place between public and private parties of the partnership. Applications of the partnership between public and private investors enable authorities to meet the needs of economic development through investment funds without losing control over them and avoiding a negative impact on the infrastructure. Public-private partnership is one of the most common mechanisms for financing large infrastructure projects in economically developed countries. This promising method of managing the municipal property or property of natural monopolies which includes a number of areas of housing is hampered by distrust between the private sector and the state.

From the private sector and potential investors there are expectations of significant budget investment in the territory as a guarantee of stability conditions. To reduce risk, inves-

tors need a clear strategy for revitalization, detailed plans of the industry development (the service sector, agriculture) and infrastructure. The state plays an important role in providing guarantees to investors regarding the access to certain services, for example, to the use of communal areas or freeways. Global experience shows that an important factor in investment flows may be the provision of high-quality administrative services and procedural simplification in obtaining permits and other documents (including construction) at the local level, even with the usage of the newly created units serving the investors. A growing number of barriers in the field of licensing is recognized by investors as one of the key factors hindering the flow of investment.

Local authorities' guarantees as a form of state guarantees involve borrowing resources by a company, where the local government undertakes a full or partial repayment in case of failure of the company to meet its obligations. Local safeguards should be provided in terms of payment, maturity and collateral security by the decision of the local government. In Ukraine, global experience in providing local authorities' guarantees is poorly understood and uncommon, although the possibility of its usage is provided in Article 17 of the Budget Code of Ukraine concerning public enterprises. The experience of the town of Voznesensk in Mykolaiv region is a good example of local authorities' guarantees [4]. Credit resources there were attracted to the town's economy by providing relevant guarantees for companies' debts. Twin cities may provide financial assistance for the purpose of revitalizing the areas in large cities. Such financing can be beneficial for both parties. For example, it may determine future cooperation in various spheres, such as business, education, arts, etc.

The experience of creation of loan funds for private investors by local banks and local authorities (municipalities), which is practiced in many countries, may also be useful for Ukraine in the context of limited financial resources.

Sometimes the need to attract a considerable amount of financial resources as well as the same type of problems and activities in revitalization of cities of certain areas requires the organization of a regional association or the use of regional development agencies as a coordinator of these processes in the region. The State Fund for Regional Development (SFRD) was created in Ukraine in 2012. Its funds have been spent in the following areas: financing the regional development strategies, financing public programs in terms of implementation of the regional development programs to overcome the problems of depressed areas, financing the socio-economic development of administrative units, financing of the cross-border cooperation. Experts [11] recognize the need to refocus the activities of the fund on financing purely investment goals, such as investment projects that will provide the real income for local communities. In 2014 and 2015, there was no budgetary funding for this government program [12].

The important sources of funding the rehabilitation are the structural funds of the EU. A prerequisite for attracting such funds is the existence of partnership between the EU structural funds and the institution in the recipient country which is able to contribute at least part of own financial resources to the project. The regional economic policy has a significant impact on raising funds for the process of revitalization. For example, the investment project «Greenfield» would be more attractive than complicated and costly without regional support. In particular, in the 1990s in the UK, there was adopted a procedure for approval of investment projects, whereas for each investment within the project «Greenfield» the local government is to prepare a proposal on the usage of existing areas, capacities and property. This procedure has led to the fact that local authorities have developed a package of investment proposals and attracted about 40-60% of new investments in projects of restructuring.

5. Conclusions

The revitalization of industrial areas has become an integral part of the spatial planning of urban development, which aims to create high quality urban environment. However, all

the good intentions of restoring the areas without adequate financing might be negated. In modern terms of the chronic budget deficit, the formation of effective mechanisms of raising funds from various sources for this purpose, the motivation of concerned investors (state, local, commercial businesses), the organization of promotions of revitalization becomes relevant.

The process of revitalization couldn't be implemented without public investment in infrastructure. However, in case of budget deficit we should look for alternative sources and mechanisms to upgrade the problem areas, especially using the experience of developed countries.

To launch the project of revival of post-industrial cities it is necessary to justify the economic attractiveness of such an event for potential investors and the local community. Local authorities should initiate finding the financial resources for the revitalization. In addition, we think that an enabling environment to stimulate the investment process is more important than public investment. Sources of credit take on particular significance, especially attraction of public loans, both internal and external. Furthermore, community involvement in the process of solving problems of the city will form a responsible civil society, on the one hand, and on the other, will create a community fund to finance the revitalization of postindustrial areas through donations.

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Received 16.10.2015

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Стаття надійшла до редакції 16.10.2015

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